The EQUITABLE LIFE insurance company
OF CANADA

59th Annual Report

1978

DIRECTORS

HOWARD E. POWER*†, F.C.I.S.	*Honorary Chairman*
THOMAS R. SUTTIE*, F.I.A., F.C.I.A.	*Chairman of the Board and President*
WILLIAM H. TIMMIS*	*1st Vice-President*
HARRY D. GREB*	*2nd Vice-President*

JAMES C. BURT
TAMARA GIESBRECHT†
WOLFE D. GOODMAN*, Q.C.
J. GERALD HAGEY*, LL.D.
JOHN M. HARPER†, Q.C.
HARRY S. MORTON, O.B.E., LL.D., F.R.C.S.
JOHN A. TUCK, Q.C.
JOHN G. WEBER†

*Member of Executive Committee

† Member of Audit Committee

HONORARY DIRECTORS

W. J. McGIBBON, Q.C.
J. W. SCOTT

OFFICERS

T. R. SUTTIE, F.I.A., F.C.I.A.	*President*
D. L. MacLEOD	*Executive Vice-President*
H. I. McINTOSH, F.S.A., F.C.I.A.	*Senior Vice-President and Actuary*
G. R. BLAKE, F.L.M.I.	*Vice-President and Treasurer*
W. H. WAHL, F.C.I.S., F.L.M.I.	*Vice-President, Corporate Services and Secretary*
R. D. BEAUBIEN, F.S.A., F.C.I.A.	*Assistant Actuary, Individual Products*
G. L. BRUNT, C.L.U.	*Employee Benefit Plans Sales Director*
D. G. CHAMBERS, C.R.A.	*Mortgage Lending Officer*
B. V. DOUTHWAITE	*Assistant Vice-President, Marketing*
G. R. DUNLEAVY, F.L.M.I.	*Accounting and Budget Officer*
L. J. HAMEL, F.L.M.I.	*Investment Administrative Officer*
G. E. HARTMAN, C.L.U.	*Regional Sales Director*
R. D. MARVEN, F.L.M.I.	*Policyowner Service Officer*
G. J. MELNIK, F.S.A., F.C.I.A.	*Group Actuary*
W. H. PUGH, F.L.M.I.	*Associate Secretary and Personnel Officer*
S. O. RAMELAN, C.F.A.	*Equity Investment Officer*
D. C. RAMSAY, F.L.M.I.	*Systems Development Officer*
J. K. SAMPLE, F.S.A., F.C.I.A.	*Assistant Actuary, Group Life and Health*
R. E. SCHIEDEL	*Data Processing Executive*
D. G. SEEBACH, F.L.M.I.	*Marketing Services Director*
J. W. SHADDICK, F.S.A., F.C.I.A.	*Assistant Actuary, Research and Statistics*
HARPER, HANEY AND WHITE	*Solicitors*
P. G. SCHWAGER, M.D.	*Medical Director*

DIRECTORS' REPORT

TO THE POLICYOWNERS OF THE EQUITABLE LIFE INSURANCE COMPANY OF CANADA.

NEW BUSINESS - The volume of business written in 1978 (with 1977 figures shown for comparison) was as follows:-

	2019	2043
	1978	1977
Individual Life Insurance	**$146,633,027**	$149,495,111
Individual Annuity	**55,397,423**	54,923,186
Group Life Insurance	**40,473,850**	54,257,250
Group Annuity	**24,196,969**	17,137,357
	$266,701,269	$275,812,904

Annuity sales are reported above at the rate of $1,200 per $100 645 annual payment. 713

BUSINESS IN FORCE - The above new writings, together with increases in existing groups, brought business in force at 31st December 1978 (with 1977 for comparison) to the following:-

	1978	1977
Insurance	**$3,206,925,018**	$2,862,217,505
Annuity	**423,470,338**	350,024,938
	$3,630,395,356	$3,212,242,443

PREMIUM INCOME - As shown in the Statement of Income, the premium income in 1978 was $30,274,993. This was a reduction from 1977 as a result of a decision to reduce the sales of Income Averaging Annuity Contracts. A substantial volume of single premiums for these contracts was obtained in 1977 when the demand for mortgages was high and all income received could be readily invested. This situation changed in 1978 with a reduced demand for mortgage funds.

The premium income in each of the other lines of business increased from 1977 to 1978.

ACTUARIAL LIABILITY - Amendments to the Canadian and British Insurance Companies Act and the regulations thereunder that became effective January 1, 1978 had a major impact upon the level of actuarial liabilities and hence upon the surplus. As explained in Note 1 to the Financial Statements, these items as at December 31, 1977 have been restated in this Report and therefore differ from the corresponding items in the 1977 Report by the amounts shown in the note. In addition, certain contingency reserves, which were previously incorporated in the Actuarial Liability (designated as Policy Reserves in the 1977 and earlier reports), are now shown as Appropriated Surplus.

The assumptions used in the actuarial valuation are in accordance with the Act and regulations and the Recommendations for Financial Reporting of the Canadian Institute of Actuaries. They are more appropriate to the rates of interest now being earned and the rates of mortality derived from the up-to-date experience of lives insured in Canada. Also greater allowance has been made for the amortization of certain acquisition expenses. Consequently there is a significantly reduced degree of conservatism. It is therefore appropriate to increase the safety margin maintained in addition to the Actuarial Liabilities to guard against unexpected but possible contingencies during the many future years over which payments to policyowners will become due. In our judgment, the Appropriated Surplus of $14,007,778 and Unassigned Surplus of $12,744,826 are together proper and sufficient for this purpose.

MORTALITY EXPERIENCE - The Mortality experience can fluctuate widely from year to year. In 1978, for the third successive year, the mortality experience was substantially below the level assumed in the actuarial valuation. It was therefore considered appropriate to make a further addition of $783,865 to the Reserve for Mortality Fluctuations. This reserve can be drawn upon when, as must be expected, unfavourable upward fluctuations occur.

EARNED INTEREST RATE - This represents the return on the book value of investments made at varying interest rates in earlier years. The rates obtainable on investments made in 1978 increased throughout the year; the average rate on these new investments exceeded 10%. As a result the earned interest rate net of investment expenses increased to 8.94% from 8.48% in the previous year.

DIVIDEND SCALE - A substantial increase in the scale of policy dividends became effective from July 1, 1978. This was made possible by the excellent financial results, and in particular by the continuing increase in the earned interest rate.

DIRECTORS - We regret to report the death in 1978 of Mr. C. N. Weber who was elected an Honorary Director in 1974 after serving as a director of the Company since 1945.

STAFF - The directors again wish to record their sincere appreciation to the Field and Head Office Staffs. The men and women who comprise our field force are well trained in sales and technical skills, with particular emphasis upon expertise in estate planning and business insurance. That the salaried staff in both branches and Head Office, with a reduction in number, handled efficiently business which continued to grow in both complexity and volume indicates the cooperative attitude and skill of all the staff members.

On behalf of the Board

T. R. Suttie, Chairman of the Board
and President

STATEMENT OF — ASSETS

The Company has these assets to meet its obligations to policyowners:-	At December 31 **1978**	1977
BONDS (Note 2)	**$ 41,809,169**	$ 37,704,615
STOCKS (Note 3)	**10,109,688**	8,372,549
MORTGAGES (Note 2)	**99,481,824**	93,028,358
REAL ESTATE (Note 4) Head Office and income producing properties	**3,675,670**	3,737,831
LOANS TO POLICYOWNERS Fully secured by the cash value of policies of this company	**10,373,987**	9,758,588
CASH Including interest bearing deposit certificates withdrawable on demand	**6,362,954**	4,144,856
PREMIUMS IN COURSE OF COLLECTION Fully secured by policy reserves	**1,784,474**	1,554,254
INTEREST ACCRUED Interest from last payment date to December 31	**2,144,367**	1,900,901
SEGREGATED INVESTMENT FUNDS (Note 5)	**9,626,855**	7,464,708
MISCELLANEOUS ASSETS (Note 6)	**370,494**	379,244
OTHER ASSETS (Note 7)	**830,240**	238,640
	$186,569,722	$168,284,544

AUDITORS' REPORT TO THE POLICYOWNERS

We have examined the statement of assets, liabilities and surplus of The Equitable Life Insurance Company of Canada as at December 31, 1978, and the statements of income, allocation of surplus and reconciliation of reserves and unassigned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Valuation Actuary as to the amount of the total actuarial liability.

In our opinion, based on our examination and the opinion of the Company's Valuation Actuary, these financial statements present fairly the financial position of the Company as at December 31, 1978, and the results of its operations for the year then ended in accordance with the accounting principles described in the notes to the financial statements applied on a basis consistent with that of the preceding year, except for those relating to the determination of the 1977 increase in actuarial liability for unmatured obligations appearing on the statement of income and after giving retroactive effect to the changes in accounting principles, as described in note 1.

KITCHENER, Canada
February 6, 1979

CLARKSON, GORDON & CO.
Chartered Accountants

REPORT OF THE VALUATION ACTUARY

I have made the valuation of the Total Actuarial Liability of The Equitable Life Insurance Company of Canada for its Statement of Liabilities and Surplus at December 31, 1978 and its Statement of Income for the year then ended. In my opinion (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount shown as the Total Actuarial Liability makes proper provision for the obligations payable in the future under the Company's policies, and (iii) a proper charge on account of those liabilities has been made in the Statement of Income.

February 5, 1979

H. I. McIntosh, F.S.A., F.C.I.A.,
Senior Vice-President and Actuary

NOTES TO THE FINANCIAL STATEMENTS

The accounting policies followed by the company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders.

1. The Assets, Liabilities and Surplus as at December 31, 1977 as shown in the Annual Report have been restated to reflect changes in the Canadian and British Insurance Companies Act and regulations which became effective January 1, 1978.

The effect of the amended laws and regulations on unassigned surplus at December 31, 1977 was:

Unassigned Surplus as at December 31, 1977 as shown in 1977 Report	$ 5,460,270
Increase in Value of Bonds and Mortgages	23,406
Decrease in Value of Real Estate	(1,582)
Decrease in actuarial liability (Note 8)	6,798,229
Restated Unassigned Surplus as at December 31, 1977 as shown in this Report	$12,280,323

The inclusion of assets previously excluded (Note 6) and the reserve therefor increased both assets and appropriated surplus by $379,244. The reserve held for mortality fluctuations and the contingency reserve for group insurance contracts previously included in Policy Reserves are now shown as appropriated surplus.

The 1977 figures in the Statement of Income have been restated except for the Increase in the Actuarial Liability for Unmatured Obligations which is based on the assumptions and methods used in 1977.

2. Investments in bonds and mortgages are carried at amortized cost plus or minus the unamortized balance of the losses or gains on sale of such securities. Realized gains and losses on bonds are included in investment income in equal yearly amounts over the remaining term of the securities sold but not exceeding 20 years.

3. Investments in stocks are carried at cost increased by realized losses and decreased by realized gains with an adjustment towards market value each year of 7% of the difference between the adjusted book value and the year-end market value of all equity securities.

4. The Head Office building and income producing property were valued at cost less depreciation on the straight-line basis at 2½% or 5% per annum depending on the type of construction.

5. Segregated Investment Funds are funds for contracts under which the benefits are determined by the market values of the assets, the obligation therefore being equal to the market value as carried in the Assets.

6. These assets, for which a 100% reserve is required by the Canadian and British Insurance Companies Act, include furniture and equipment (other than EDP equipment) depreciated at 20% of the declining balance and the estimated recoverable portion of agents' debit balances.

7. Among Other Assets is Electronic Data Equipment amounting to $619,438, at cost less accumulated depreciation. Depreciation is calculated on the straight-line method at 20% per year.

8. The Actuarial Liability for Unmatured Obligations carried in the liabilities and the increase in this Liability carried in the Statement of Income for 1978 were calculated allowing for deferred acquisition costs of up to 150% of the net level valuation premium, eliminating negative reserves, and with a cash value floor, in accordance with Paragraph 82(8)(b) of the Canadian and British Insurance Companies Act.

A comparison between this method and the net level premium reserve method is as follows:

	1978
Actuarial Liability on net level premium basis	$140,239,664
Actuarial Liability as stated	136,065,982
Unamortized deferred acquisition costs	$ 4,173,682

9. The reserve for investments of $5,500,000 includes $2,110,669 for the investment valuation and currency reserve required by the Canadian and British Insurance Companies Act, an increase in the required reserve of $201,250 from the preceding year as restated.

10. Since the information required for the accurate determination of certain items of taxable income was not available when the annual statement was prepared, the Income Tax charge against operations is an estimate of the amount currently payable. The Company follows the taxes payable method of providing for income taxes. Under this method taxes are provided for as incurred.

— LIABILITIES AND SURPLUS

The obligations of the Company are:-	*At December 31* **1978**	1977
ACTUARIAL LIABILITY FOR UNMATURED OBLIGATIONS (Note 8) This amount, with future premiums and interest earnings, provides for the payment of benefits guaranteed by the Company's policies.	**$136,065,982**	$123,548,171
POLICYOWNERS' FUNDS Policy proceeds and dividends left on deposit, policy benefits in process of payment, premiums received in advance and other policyowners' funds	**6,357,171**	5,513,760
SEGREGATED INVESTMENT FUNDS (Note 5)	**9,626,855**	7,464,708
POLICYOWNERS' DIVIDENDS Reserve for dividends payable in following year	**3,780,000**	3,235,000
PROVISION FOR GROUP EXPERIENCE REFUNDS	**1,193,617**	702,846
RESERVE FOR UNREPORTED CLAIMS An estimate of claims which may have occurred but have not yet been reported to the Company	**1,811,375**	1,769,218
TOTAL ACTUARIAL LIABILITY	**$158,835,000**	$142,233,703
TAXES AND EXPENSES DUE AND ACCRUED (Note 10)	**632,176**	1,315,607
OTHER LIABILITIES Includes unallocated receipts	**349,942**	337,391
TOTAL OBLIGATIONS	**$159,817,118**	$143,886,701
Reserve for Miscellaneous Assets	**370,494**	379,244
Reserve for Investments (Note 9)	**5,500,000**	5,050,000
Reserve for Mortality Fluctuations	**2,480,246**	1,696,381
Contingency Reserve for Group Insurance Contracts	**5,657,038**	4,991,895
APPROPRIATED SURPLUS	**$ 14,007,778**	$ 12,117,520
UNASSIGNED SURPLUS	**$ 12,744,826**	$ 12,280,323
	$186,569,722	$168,284,544

RECONCILIATION OF RESERVES AND UNASSIGNED SURPLUS

RESERVES FOR:	**1977 Restated** (Note 1)	**Increase in 1978**	**December 31, 1978**
Miscellaneous Assets	$ 379,244	$ (8,750)	**$ 370,494**
Group Contingencies	4,991,895	665,143	**5,657,038**
Mortality Fluctuations	1,696,381	783,865	**2,480,246**
Investments	5,050,000	450,000	**5,500,000**
TOTAL APPROPRIATED SURPLUS	$12,117,520	$1,890,258	**$14,007,778**
UNASSIGNED SURPLUS	$12,280,323	$ 464,503	**12,744,826**
TOTAL	$24,397,843	$ 2,354,761	**$26,752,604**

INCOME

The sources of revenue were:-	For year ended December 31	
	1978	1977
PREMIUMS:-		
Insurance	**$ 17,460,094**	$ 16,274,233
Annuity	**8,176,577**	12,336,945
Health	**3,017,839**	2,875,929
Segregated Funds	**1,620,483**	1,558,769
	$ 30,274,993	$ 33,045,876
EARNINGS FROM INVESTMENTS AFTER INVESTMENT EXPENSES		
Insurance, annuity and health	**$ 14,242,144**	$ 12,143,968
Segregated Funds	**497,531**	389,079
	14.73	12.52
Net Realized and Unrealized Capital Gains or (Losses) on Segregated Funds	**1,239,659**	390,540
	$ 46,254,327	$ 45,969,463
The revenue was used for:-		
PAYMENTS TO POLICYOWNERS AND BENEFICIARIES:		
Death and disability benefits	**$ 5,018,176**	$ 4,423,651
Matured endowments and cash values	**4,700,534**	3,777,367
Annuity and settlement option payments	**2,145,779**	1,664,628
Interest on policyowners' funds	**243,596**	213,237
Health Insurance benefits	**2,365,890**	2,200,976
Benefits paid from Segregated Funds	**1,195,526**	845,962
Increase in actuarial liability for unmatured obligations (Notes 1 and 8)	**12,517,811**	16,951,760
Increase in provision for group experience refunds	**490,771**	224,209
Increase in Segregated Funds	**2,162,147**	1,492,426
	$ 30,840,230	$ 31,794,216
OPERATING EXPENSES:-		
Compensation for sales and field service to policyowners	**$ 2,862,402**	$ 2,913,948
Service to policyowners at Head Office and Branches	**4,917,947**	4,482,763
Premium and municipal taxes and license fees	**490,114**	460,172
	$ 39,110,693	$ 39,651,099
Net Income before Dividends to Policyowners and Income Tax	**$ 7,143,634**	$ 6,318,364
Dividends to policyowners in year	**2,943,873**	2,470,702
Increase in provision for dividends to policyowners	**545,000**	510,000
Net Income before Income Tax	**$ 3,654,761**	$ 3,337,662
Income Tax (Note 10)	**1,300,000**	1,250,000
NET INCOME TRANSFERRED TO ALLOCATION OF SURPLUS	**$ 2,354,761**	$ 2,087,662

ALLOCATION OF SURPLUS

	1978
NET INCOME FROM STATEMENT OF INCOME	**$ 2,354,761**
LESS:	
Increase in Investment Reserve (Note 9)	**$ 450,000**
Increase in Reserve for Mortality Fluctuations	**783,865**
Increase in Contingency Reserve for Group Insurance Contracts	**665,143**
Increase in Reserve for Miscellaneous Assets	**(8,750)**
INCREASE IN UNASSIGNED SURPLUS	**$ 464,503**

BRANCH OFFICES

Branch *Manager*

CALGARY
R. A. RAMSDEN, C.L.U.

EDMONTON
D. M. LILLYCROP, C.L.U.
T. F. KOFIN, C.L.U., Asst. Mgr.

HAMILTON
C. W. ABBOTT, C.L.U.

KELOWNA
H. V. WILLIAMS, C.L.U.

KITCHENER
B. H. MELICK, C.L.U.

LONDON
H. J. ROSE

MONTREAL
1501 - 2020 University St.

OSHAWA
F. K. CLARKE
D. B. SABEAN, Unit Mgr.

OTTAWA
B. T. BAIGENT, C.L.U.

REGINA
J. J. McGEADY

ST. CATHARINES
J. C. MacDONALD, C.L.U.

Branch *Manager*

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VICTORIA
NORTHWESTERN INSURANCE AGENCIES LTD.

WATERLOO
E. F. GOMAN, C.L.U.

WINDSOR
P. S. REID, C.L.U.

WINNIPEG
P. S. TAYLOR, C.A., C.L.U.
B. D. PARKER, C.L.U. Unit Mgr.

Group Offices

CALGARY
F. SCHNEIDER, F.L.M.I.

TORONTO
P. KRAUSE

WATERLOO
G. L. BRUNT, C.L.U.

MORTGAGE LOAN OFFICES

LONDON
A. E. ELMSLIE, A.A.C.I.
Manager

OTTAWA
G. R. HEWER,
Manager

TORONTO
KOPAS & BURRITT FINANCIAL AGENTS LTD.
Representative

WATERLOO
D. G. CHAMBERS, C.R.A.
Manager

The EQUITABLE LIFE insurance company
OF CANADA